BARCLAYMEADE

How are the self-employed reacting to the Budget?

The new Labour Governments first budget for 14 years could increase contractor demand

A few weeks have now passed since Labour's first Budget in 14 years. Plenty of column inches have been dedicated to the impact of the measures announced. And the fallout shows no sign of ending either - business backlash at higher costs, market jitters at the relatively low growth forecast, charities and the hospitality sector up in arms and farmers threatening mass protests.

This Budget has unquestionably impacted industries and individuals up and down the country, but could it also have another unintended consequence – more demand for freelancers and contractors?

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How could it increase contractor demand?

For a Chancellor that promised to be the most "pro-growth, pro-business" government that this country has ever seen, it was an inauspicious start.

The Employer National Insurance (ERNI) increase caused much of the backlash from business. It will now cost at least £1030 more to hire an employee, for employer NI only, based on minimum wage. And whilst the Chancellor reduced the impact on smaller businesses with an increase in the Employment Allowance, the largest employers will be paying considerably more (as will company directors that pay themselves a salary).

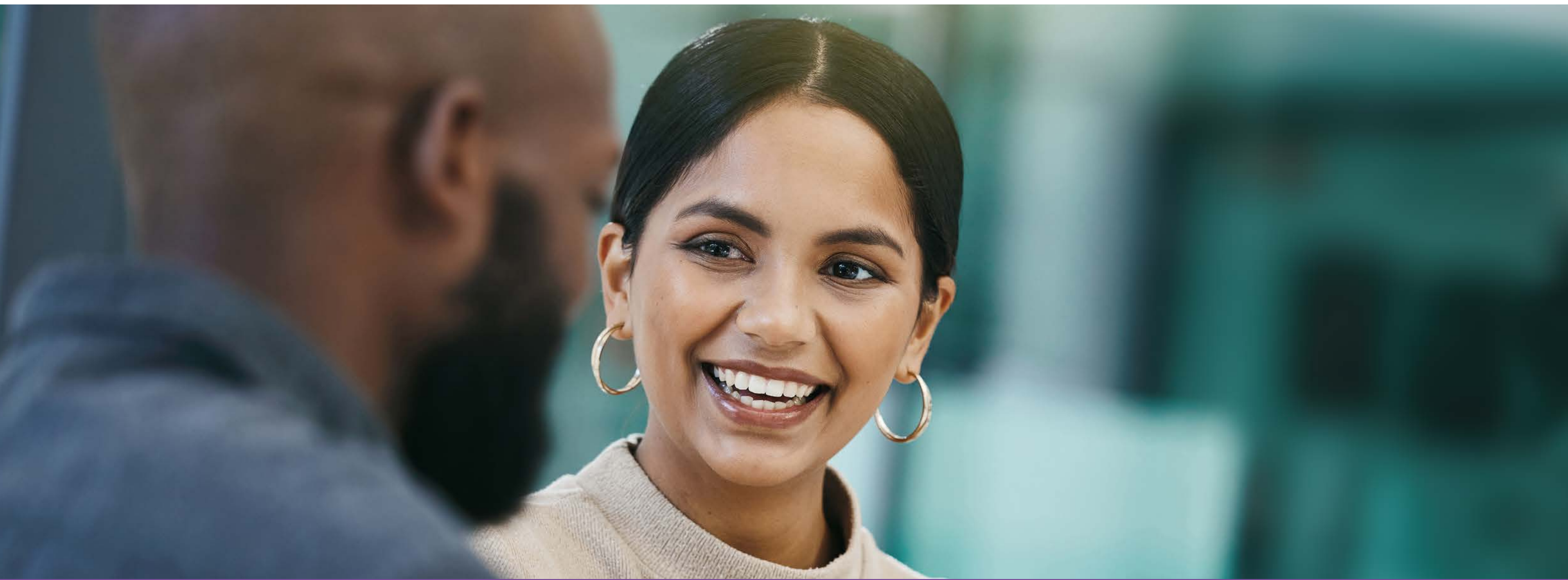
The increase in minimum wage also impacts the cost to hire an employee, by an additional £1600 per annum on minimum wage.

This coupled with the Employer NI increase, and therefore also the increased employer pension contributions and apprenticeship levy the combined increases amount to £2690 per employee, being 10.2%, when the starting point is minimum wage.

As a result, the Office for Budget Responsibility are now forecasting sluggish growth figures for the next few years. It's no surprise that their justification heavily cites the impact of the Employer NI increase, predicting it will reduce the hiring capability of firms.

"The Employer National Insurance (ERNI) increase caused much of the backlash from business"

It is this increased cost of employing, along with the increased employment obligations that are forthcoming from the Employment Rights Bill, that could see the flexible workforce become a more attractive option for firms.



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Self-employment on the rise

Some economic commentators, such as the Institute for Fiscal Studies and the Resolution Foundation, are now predicting an increase in self-employment as hirers look to mitigate the impact of higher employment costs.

It is important to recognise that hirers who play by the rules also want to work with genuine freelancers to maximise return on investment and grow their own businesses.

These genuinely self-employed individuals are not operating in 'insecure work' and would not prefer the 'protections of employment'. These are our innovators and entrepreneurs, forging their own successful businesses by offering their significant experience and expertise to clients that are crying out for these skills and need projects to be fulfilled.

They also provide a vital contribution to both the UK economy and wider society. Many are at the heart of projects that deliver cutting-edge advancements in science and technology or crucial support for the functioning of national infrastructure and government.

" It is important to recognise that hirers who play by the rules also want to work with genuine freelancers "

Perhaps unintentionally, the chancellor may have tipped the scales in favour of self-employment. It's important, though, to remember that the IR35 rules continue to weigh heavily on these scales for clients...

What's in it for the self-employed?

For sole traders, freelancers, contractors or limited company directors the below should cover what they need to know.

After weeks of fervent speculation about which levers the chancellor might pull to plug the hotly contested £22 billion blackhole, we finally got the detail – including some important changes for self-employed people up and down the country.

At a glance - key Budget news for the self-employed & employer

- Minimum wage increases from £11.44 to £12.21 effective April 2025
- Employer NICs increasing from 13.8% to 15% - and per employee threshold falls from £9100 to £5000
- Corporation tax rate of 25%, as well as Small Profits Rate and marginal reliefs, remain unchanged
- No change to Dividend tax rates and allowances
- Fuel duty frozen and temporary 5p cut extended for further year

" It will come as welcome news that the price at the pump won't be impacted by tax for at least the next year"

Capital Gains Tax increasing to 18% at lower rate and 24% at higher rate

- Personal tax allowance frozen until 2028 and then increasing
  - Introduced originally by the previous Government in 2021, the chancellor did not change the freeze on personal tax allowance thresholds until 2028
  - This measure sees taxpayers pulled into paying tax, or paying tax at a higher rate due to the thresholds not rising in line with inflation, often referred to as fiscal drag
  - Many freelancers will find themselves being pulled into higher tax bands until the thresholds begin to rise from 2028
- Fuel Duty frozen for another year whilst also maintaining the temporary additional 5p cut for another year too. For those businesses reliant on using a vehicle for work, it will come as welcome news that the price at the pump won't be impacted by tax for at least the next year.

MTD for ITSA to apply to earnings over £20,000

[Making Tax Digital for Income Tax Self Assessment]() (or 'MTD for ITSA') will apply to even more of the self-employed as a result of the Budget.

The current timetable for MTD for ITSA is:

- From April 2026, it will apply to self-employed individuals and landlords with an income of more than £50,000
- From April 2027, it will apply to those with an income between £30,000 and £50,000

Following the Budget, we now know that government intends to extend the requirement to sign up for MTD for ITSA to those with eligible incomes greater than £20,000. However, no set date has been given for when this will be rolled out.

What changes to Employer NICs mean for the self-employed

Although Employer National Insurance Contributions (NICs) aren't chargeable on self-employed contracts, the tax still has important implications for people who freelance or own their own businesses.

Let's start with the headline rate; from April 2025, the rate of Employer NICs will increase from 13.8% to 15%. Meanwhile, the per-employee earnings threshold at which Employer NICs become chargeable will fall to £5,000, from £9,100.

For those thinking about expanding their business and taking on their first members of staff, the Employment Allowance – which currently lets eligible businesses discount their total NICs bill by up to £5,000 – can offset some of the impact of increases to the main rate. And from April 2025, this Allowance will more than double to £10,500, and eligibility expanded to cover employers with larger NICs bills.

But for freelancers who are sole directors of their own limited companies, the change to the per-employee threshold will have an impact on their approach to drawing down a salary, as they are ineligible for the Employment Allowance. An accountant can help with identifying the best approach to receiving income from their business once the change comes into effect in April 2025.

Umbrella company contractors covering the cost of Employer NICs

However, there are also thousands of freelancers and contractors who have been forced onto umbrella company payrolls due to IR35 rules. Unless they can negotiate a higher rate of pay with their end client, these contractors will see their take-home pay fall as they cover the cost of their umbrella company's higher employer NI bill.

Capital Gains Tax increases – but relief maintained for business owners

The lower rate of Capital Gains Tax will now increase from 10% to 18% from April 2025, while the higher rate will rise from 20% to 24%.

Business Asset Disposal Relief (BADR and formerly Entrepreneur's Relief) has some changes. The lifetime limit remains at £1 million but the chancellor announced an increase from April 2025 on the rate that to be paid. This will increase to 14% in April before rising to 18% from 2026/27.

More support for business rates payers

For freelancers and self-employed professionals with their own business premises the government has pledged more support to keep the cost of business rates down, particularly for those in the retail, leisure and hospitality sectors.

Firstly, in 2025-26, the Small Business Multiplier for business rates will be frozen at 49.9p, with retail, leisure and hospitality premises being eligible for 40% relief up to a cap of £110,000.

And by 2026-27, government intends to establish permanently lower business rates for these businesses.

Stamp Duty

For those with second homes and landlords, stamp duty will increase on buy-to-let residential properties and second homes. From 31st October 2024, this will increase from 3% to 5%.

Corporation Tax and Dividend Allowance

The chancellor has kept the higher rate of Corporation Tax at 25% whilst maintaining the Small Profits Rate and marginal relief at their current rates and thresholds.

Similarly, there was no mention of Dividend Allowance, which will stay at £500 a year (just five years ago this was at £5,000!)

" Tax still has important implications for people who freelance or own their own businesses"

No tweaks to pensions and savings

The Chancellor decided not to move the current relief on pensions contributions - with the limit remaining at £60,000 – whilst also keeping the amount you can withdraw as a tax free lump sum at 25% or £268,275 (whichever is lower).

There were also no tweaks to ISAs, despite some speculation that these could be revamped to encourage greater use.